



LODI CITY COUNCIL

Carnegie Forum
305 West Pine Street, Lodi

"SHIRTSLEEVE" SESSION

Date: November 8, 2005

Time: 7:00 a.m.

For information regarding this Agenda please contact:

Susan J. Blackston

City Clerk

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Informal Informational Meeting

A. Roll call by City Clerk

B. Topic(s)

B-1 Review of citizens' Fire and Facilities Sales Tax Initiative fiscal impact study (FIN)

C. Comments by public on non-agenda items

D. Adjournment

Pursuant to Section 54954.2(a) of the Government Code of the State of California, this agenda was posted at least 72 hours in advance of the scheduled meeting at a public place freely accessible to the public 24 hours a day.

Susan J. Blackston
City Clerk



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Review of Fire and Facilities Citizens Sales Tax Initiative fiscal impact study

MEETING DATE: November 8, 2005

PREPARED BY: James R. Krueger, Finance Director

The attached memorandum evaluates the fiscal impact of the Fire and Facilities Citizens Sales Tax Initiative to be reviewed with the Council at the Shirtsleeve Session on November 8, 2005. Staff will present a power point presentation to Council at the meeting.

James R. Krueger, Finance Director

APPROVED: _____
Blair King, City Manager



TO: Honorable Members of the City Council

THROUGH: Blair King, City Manager

FROM: Jim Krueger, Finance Director

DATE: November 4, 2005

SUBJECT: Evaluation of Citizens Sales Tax Initiative

The City Council requested an evaluation of the Citizens Sales Tax Initiative several months ago. This evaluation focuses on the effects of the increase in revenues to the General Fund of the City of Lodi. It does not identify the broader issues related to the effect that a Sales Tax increase might have on the local economy.

Primary effects of the Initiative would be as follows:

- The Sales Tax rate would be adjusted by $\frac{1}{4}$ cent (7.75% to 8.00%) for ten years. The local portion of the sales tax that would go to the City of Lodi General Fund would increase by as much as 25% (1.0% current rate would be adjusted to 1.25%). Increases to the local share are capped at 2.0% and increases can be approved in $\frac{1}{4}$ cent increments. If the initiative passes, then the remaining allowable increases would be 1.25% (2.0% allowable less .5% approved previously, less .25% for this initiative)
- Estimated revenue to be generated from the $\frac{1}{4}$ cent increase would be \$28,585,000 over the course of ten years. This is based on annual average growth in the sales taxes volume of 5.7% (growth in 2004/05 was approximately 8%). The projected annual amounts would range from \$2,300,000 in the first year to \$3,486,000 in the tenth year.
- One measure of the impact on Lodi citizens from the sales tax increase is the per capita amount that citizens would pay. A $\frac{1}{4}$ cent sale tax rate increase would result in a per capita increase of approximately \$40 per

year. Since a good portion of the sales taxes paid in Lodi result from point of sale transactions, revenues would also be generated from those that reside outside of Lodi. Conversely, transaction taxes (the amounts paid by those who purchase an automobile) would be paid by Lodi citizens regardless of where the purchase occurs.

- Total estimated resources to be garnered from this initiative are \$28.5 million. As stipulated in the initiative language, these resources would be directed as follows: 1) Capital costs of approximately \$22,000,000 and 2) operating costs of \$6,585,000. The ongoing cost of personnel added to fully staff and equip the new Fire Station and for paramedics as stipulated in the initiative, would add annual operating costs of \$2,153,000 (\$700,000 for paramedics and \$1,453,000 for Station 5). The sales tax initiative would fund \$4.2 million of these costs (\$700,000 for paramedics in the first six years). The initiative would not fund any of the additional operating costs after Fire Station 5 is built and not fund the cost of paramedics after year six.
- The City Council directs (through the annual budget process) how services will be delivered and the priorities for these services. Since the ultimate decision on how the additional sales taxes would be spent rests with the City Council, the stipulations on how the proceeds from the additional sales taxes are not necessarily binding on the City Council. Therefore, the decisions related to when and how many paramedics to be hired and utilized rest with the City.
- The general fund is currently funding about 67% of Public Safety expenditures with property taxes and sales taxes. This percentage improves with the sales tax initiative to 93% by the end of the ten years. However, the percentage drops off again at the end of the ten year period.
- One problem that could arise relates to the possibility that sales taxes and other funding sources used to fund public safety might decrease during an economic downturn. Therefore, the additional sales taxes generated from the rate increase, could be needed to help fund the shortfall that would be created in an economic downturn.
- In conclusion, the revenues that would be generated from the initiative are not sufficient to pay for the additional expenditures that are stipulated in the initiative. At the end of the 10 years, the General Fund will be faced with funding the additional expenditures stipulated in the initiative and no source for revenue for continued funding.

Discussion:

- There may be a negative economic impact from a sales tax increase. Although sales taxes are considered to be a progressive tax (those with higher incomes would most likely bear the burden of the increase), the net effect on consumer spending may be negative and there may be less revenues generated from the initiative as a result. Other revenue options would be a parcel tax and higher development fees.
- Revenues traditionally used for General Government purposes are restricted as stipulated by the initiative. There may be other funding sources that could be used to fund the Capital Facilities, for which almost 78% of the ¼ cent special tax revenues are designated.
- The initiative stipulates that the current General Fund service delivery model be adjusted to include paramedics and operating costs for new sports facilities. This question rests with the City staff and City Council. Stipulations on how many and when paramedics should be hired is an issue that needs to be discussed in the City's budget process. Although it does not appear to be the intention that the City's decision process be subverted by the advisory board stipulated in the initiative, there are issues that will arise related to how to fund costs that are not included in the current city revenue stream. These costs are estimated to be as high as \$2.1 million per year when the initiative sunsets.
- The current General Fund budget is \$43.8 million. There will be continuing stress points in this budget over the course of the 10 years of the initiative. Costs for Public Safety (other areas too) will continue to increase and there will be a need to find other sources of funding for these costs. It may be necessary to ask citizens to support a general sales tax levy in order to support the increase in costs for the continued delivery of current services. There may be less support for the passage of a general tax levy while a special tax levy is in force.